

Message Text

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H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

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EB - MR. GREENWALD (SUBS)

MARAD - MR. BLACKWELL (INFO)

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FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

INFO AMEMBASSY LONDON

C O N F I D E N T I A L STATE 187414

E.O. 11652: GDS

TAGS: ENRG, EFIN, ID, JA, US

SUBJECT: TRANSPORTATION FOR LNG FROM INDONESIA TO
JAPAN

REF: A) STATE 182670; B) TOKYO 11325

1. EARLY IN WEEK SITUATION TOOK ABRUPT TURN FOR WORSE
IN NEGOTIATIONS BETWEEN PERTAMINA AND JAPANESE, GENERAL
DYNAMICS AND BURMAH TANKERS, BUT APPARENTLY HAS SINCE
IMPROVED SOMEWHAT. GIVEN IMPORTANCE OF THIS MATTER TO
USG, HIGH LEVEL APPROACHES TO HOST GOVERNMENTS ARE
INDICATED.

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2. IN SEVERAL MEETINGS IN NEW YORK WITH PERTAMINA'S
WIJARSO AND JAPANESE ENDUSERS OF LNG (REPRESENTED BY
MESSRS ITO AND DOI), GENERAL DYNAMICS BOARD CHAIRMAN
LEWIS AND SENIOR BURMAH TANKERS OFFICIAL HAVE HAD TO

CONFRONT A SERIOUS CREDIBILITY GAP IN PART CREATED BY SLIPPED DELIVERY SCHEDULES, OBSTRUCTIONS TO PERTAMINA/ JAPANESE VISITS TO THEIR SHIPYARDS, NON RESPONSIVENESS AND EVEN RUDENESS. (GENERAL DYNAMICS CHAIRMAN DAVID LEWIS REPORTEDLY HAS OFFERED DEEP APOLOGIES TO JAPANESE FOR ATTITUDE DISPLAYED BY SOME GD OFFICIALS.) BURMAH TANKERS GAVE FLAT GUARANTEE TO PERTAMINA THAT TANKERS

WOULD BE READY TO MOVE LNG WHEN IT BECAME AVAILABLE NEXT YEAR BUT WIJARSO AND JAPANESE APPEARED SKEPTICAL. GD'S ASSERTION THAT IT WAS READY TO TAKE AN EQUITY POSITION IN BURMAH TANKERS TO EASE LATTER'S FINANCIAL PROBLEM IF IT OBTAINS SATISFACTORY IRS RULING LEFT JAPANESE NOT FULLY REASSURED.

3. JAPANESE NEGOTIATORS HAVE PLACED PRESSURE ON INDONESIAN SIDE BY STATING THAT MITI WAS INSISTING THAT JAPANESE LOAN (IN PART FROM INDUSTRIAL BANK OF JAPAN) TO COVER INDONESIA'S LNG LIQUEFACTION PLANT COST OVERRUN WAS CONDITIONED ON ASSURANCES OF A SATISFACTORY TRANSPORTATION AGREEMENT. (INDONESIANS HAVE BEEN INTERPRETING THIS TO REQUIRE, IF NECESSARY, CANCELLATION OF BURMAH TANKER CONTRACT.)

4. AFTER FINAL GD AND BT PRESENTATION JULY 26, INDONESIANS AND JAPANESE MET AGAIN FOLLOWING MORNING. WHEN ASKED BY WIJARSO FOR THEIR RECOMMENDATIONS, JAPANESE PROPOSED THAT PERTAMINA BREAK ITS CONTRACT WITH BURMAH TANKERS, HAVE NOTHING TO DO WITH GENERAL DYNAMICS, AND ARRANGE FOR NECESSARY VESSELS ON OPEN MARKET. WIJARSO DEFENDED CONTRACT WITH BURMAH TANKERS, BUT ASKED JAPANESE IF THEY WERE PREPARED TO ENTER JOINT VENTURE WITH PERTAMINA ON TRANSPORTING LNG AND TO SHARE FINANCIAL BURDEN THAT WOULD ENSUE FROM ANTICIPATED LEGAL ACTION AGAINST PERTAMINA FOR BREACH OF CONTRACT IF IT FOLLOWED THEIR RECOMMENDATION. JAPANESE WERE NOT IN POSITION TO CONFIDENTIAL

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ACCEPT. (PERTAMINA WASHINGTON REP BENSON SAYS WIJARSO RELUCTANT TO BREAK CONTRACT BECAUSE HE PREFERS PARTIES

WHOSE PROBLEMS HE KNOWS TO NEW PARTIES WHOSE PROBLEMS ARE STILL UNKNOWN. GD BOARD CHAIRMAN LEWIS BELIEVES WIJARSO IS DEFENDING CONTRACT LARGELY OUT OF FEAR OF LAWSUITS CERTAIN TO FOLLOW CONTRACT BREACH.)

5. ON JULY 27 INDONESIAN EMBASSY COUNSELOR ADIWOSO CALLED DEPUTY ASSISTANT SECRETARY EDMOND TO SAY THAT PERTAMINA PRESIDENT DIRECTOR HARYONO HAD AUTHORIZED WIJARSO TO BREAK PERTAMINA CONTRACT WITH BURMAH TANKERS IF ABSOLUTELY NECESSARY. ADIWOSO INDICATED THAT USG WOULD HAVE ONLY UNTIL END OF THE WEEK TO RETRIEVE

CRUMBLING SITUATION. IN LATER CONVERSATION AMB. ROESMIN TOLD EDMOND HE HAD INSTRUCTED ADIWOSO TO CALL BECAUSE HE FEARED THE FALL OUT THAT WOULD AFFECT US-INDONESIAN RELATIONS IF CONTRACT WERE CANCELLED.

6. DEPARTMENT INFORMED MORNING OF JULY 28 THAT SITUATION HAD EASED SOMEWHAT DURING EVENING MEETINGS ON JULY 27. WIJARSO HAD SKILLFULLY ORCHESTRATED PRESENTATIONS BY LEINBACH OF LEHMAN BROTHERS (PERTAMINA FINANCIAL ADVISERS) AND BY MOBIL AND HUFFCO LAWYERS TO REFUTE PRINCIPAL TALKING POINTS MADE BY JAPANESE EARLIER. LEINBACH CAREFULLY WENT THROUGH CORPORATE BALANCE SHEETS OF THE FOUR COMPANIES PROPOSED AS POSSIBLE ALTERNATES TO BURMAH TANKERS (REF A) AND DEMONSTRATED TO APPARENT JAPANESE SATISFACTION THAT NONE OF THEM COULD REPLACE BURMAH TANKERS WITHOUT SIGNIFICANT FINANCIAL SUPPORT FROM THEIR GOVERNMENTS OR A BANK CONSORTIUM. THIS REFUTED ORIGINAL JAPANESE CONTENTION TO CONTRARY. MOBIL AND HUFFCO LAWYERS DISABUSED JAPANESE OF ANY NOTIONS (PROVIDED BY MITI) THAT LEGAL CONSEQUENCES OF BREACH OF CONTRACT WOULD BE SLIGHT.

7. AFTER AGAIN CONTACTING MITI, JAPANESE REPORTEDLY WERE MUCH SUBDUED AND PREPARED TO TURN ATTENTION TO QUESTION OF FINDING TANKERS TO TRANSPORT LNG IN INTERIM PERIOD BETWEEN FIRST AVAILABILITY OF LNG FOR SHIPMENT FROM BADAK FIELD (KALIMANTAN) UNTIL DELIVERY OF FIRST CHEROKEE VESSEL BY CONFIDENTIAL

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GD IN EARLY 1978. ACCORDING TO LEINBACH, JAPANESE ARE PRESSING FOR SIXTH AND SEVENTH VESSELS TO BE CONSTRUCTED OUTSIDE US ALTHOUGH NOT NECESSARILY IN JAPAN. THIS REFLECTS IN PART JAPANESE CONCERN OVER RISING COSTS OF GD-BUILT TANKERS.

8. ON AFTERNOON JULY 28 ASSISTANT SECRETARY GREENWALD RECEIVED LEWIS. MARAD ADMINISTRATOR BLACKWELL AND DEPUTY ASSISTANT SECRETARY EDMOND ALSO PRESENT. LEWIS REVIEWED EVENTS, CASTING ASPERSIONS AT INTERNATIONAL UTILITIES AND ASKED FOR USG EXPRESSION OF CONCERN OVER OUTCOME OF TRANSACTION.

9. AT SAME MEETING BLACKWELL DETAILED HIS AGENCY'S INTEREST IN CHEROKEE/EASCO CONSTRUCTION PROGRAMS AS WELL AS CONSEQUENCES OF A CONTRACT BREACH. BT'S INABILITY TO LEASE EASCO VESSELS MAY CAUSE IT TO DEFAULT IN ITS LOANS FROM US BANKS, WHICH MARAD AS GUARANTOR, WOULD HAVE TO SERVICE TO ULTIMATE EXTENT OF \$180 MILLION, (MARAD WOULD HAVE TO BORROW FROM TREASURY TO GET THE MONEY.) MARAD WOULD ALSO BE CONCERNED AT POSSIBLE CLOSE-DOWN AT QUINCY YARD AND MAJOR SETBACK TO ITS PROGRAM TO MAKE US A LEADER IN CONSTRUCTION OF CRYOGENIC CARGO

VESSELS, MARAD ALSO HAS \$67 MILLION IN CONSTRUCTION
SUBSIDIES TIED UP IN EASCO VESSELS.

10. COURSE OF NEGOTIATIONS IS STILL UNCERTAIN. TO
INSURE THAT ESSENTIAL USG INTERESTS ARE NOT MISUNDERSTOOD,
WE BELIEVE IT IMPORTANT THAT WE CLEARLY INDICATE BOTH
JAPANESE AND INDONESIANS THE IMPORTANCE WE ATTACH TO
MAINTENANCE OF PERTAMINA-BURMAH TANKER CONTRACT.

11. FOR TOKYO: REQUEST CHARGE APPROACH APPROPRIATE
FONOFF AND MITI OFFICIALS AT SUITABLY HIGH LEVEL TO MAKE
FOLLOWING POINTS:

A. USG IS SERIOUSLY CONCERNED AT POSSIBILITY THAT
CONTRACT BETWEEN BURMAH TANKERS AND PERTAMINA MAY BE IN
JEOPARDY BECAUSE OF EFFECT THAT THIS WOULD HAVE ON
GENERAL DYNAMICS SHIPBUILDING OPERATION IN PARTICULAR AND
ON US SHIPBUILDING OPERATIONS IN GENERAL.
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B. GENERAL DYNAMICS IS A MAJOR US DEFENSE CONTRACTOR.
ANY SUDDEN UNCERTAINTY OVER EMPLOYMENT OF CHEROKEE
VESSELS NOW UNDER CONSTRUCTION FOR BURMAH TANKER WOULD

HAVE VERY SERIOUS CONSEQUENCES FOR GD'S FINANCIAL POSITION
AND COULD ADVERSELY AFFECT ITS FINANCIAL ABILITY TO CARRY
OUT IMPORTANT DEFENSE CONTRACTS WITH USG.

C. LOSS OF CONTRACTS WOULD IN ALL LIKELIHOOD MEAN CLOSING
OF GD'S QUINCY SHIPYARD, WITH SERIOUS LOSS OF EMPLOYMENT
IN AN ALREADY ECONOMICALLY DEPRESSED AREA. QUINCY YARD
ALSO IS AN IMPORTANT ELEMENT IN SHIPBUILDING CAPACITY

REQUIRED FOR US DEFENSE POSTURE. THIS WAS ONE CONSIDERA-
TION BEHIND MARAD'S DECISION TO ASSIST GENERAL DYNAMICS
IN LNG SHIP CONSTRUCTION PROGRAM.

D. US MARITIME ADMINISTRATION ALSO HAS APPROXIMATELY
\$180 MILLION IN MORTGAGE GUARANTEES THAT WOULD BE PAYABLE
IN EVENT OF BURMAH TANKERS' FINANCIAL COLLAPSE. THIS
COULD BE BROUGHT ON IF CONTRACT WITH PERTAMINA CANCELLED
OR EVEN IF EASCO SHIPS NOT USED TO EXTENT THAT THEY
ARE AVAILABLE DURING INTERIM PERIOD (MARCH 77 TO EARLY 78).

E. USG HOPES THAT GOJ WILL CONVEY TO JAPANESE NEGOTIATORS
IN NEW YORK SERIOUSNESS OF US INTEREST. FYI ONLY. ON
BASIS INFORMATION HERE IT APPEARS THAT MITI MAY BE UNDER
PRESSURE FROM KAWASAKI SHIPYARD TO SCUTTLE BURMAH TANKERS
CONTRACT SO THAT JAPANESE-BUILT SHIPS MIGHT BE USED IN
THIS TRADE. IT APPEARS THAT SECOND (SUMATRA) LIQUEFACTION
PLANT VERY MUCH BEHIND SCHEDULE AND INDONESIAN NEED FOR
FOURTH, FIFTH, AND FUTURE CHEROKEE VESSELS MIGHT BE

SUFFICIENTLY DELAYED TO ENABLE NEWLY CONSTRUCTED

JAPANESE VESSELS TO BE USED. END FYI.

12. FOR JAKARTA: REQUEST AMBASSADOR CONVEY FOLLOWING TO
PERTAMINA HEAD HARYONO AND ANY OTHER APPROPRIATE GOI
OFFICIALS:

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A. WE ARE MOST APPRECIATIVE OF STEADFAST POSITION WE
UNDERSTAND WIJARSO HAS TAKEN DURING NEW YORK NEGOTIATIONS
IN UPHOLDING PERTAMINA'S CONTRACT WITH BURMAH TANKERS.
WE ARE AWARE OF PRESSURES WIJARSO HAS BEEN UNDER NOT TO
ACCEPT ASSURANCES GIVEN BY GENERAL DYNAMICS AND BURMAH
TANKERS AND GRATEFUL THAT HE HAS BEEN ABLE TO MAINTAIN
A BALANCED APPROACH IN A VERY DIFFICULT SITUATION.

B. USG CONSIDERS IT OF GREAT IMPORTANCE THAT PERTAMINA-
BURMAH TANKERS CONTRACT BE MAINTAINED FOR REASONS SET
FORTH ABOVE. -

C. WE HOPE GOI WILL CONVEY OUR INTEREST TO PERTAMINA
NEGOTIATORS NOW IN NEW YORK.

13. REPORT RESULTS OF APPROACHES. KISSINGER

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<< END OF DOCUMENT >>

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